AN ANALYSIS OF BELLSOUTH'S INFLATED PROJECTIONS OF COMPETITIVE BENEFITS AND CONSUMER WELFARE FOR LOUISIANA

Marybeth M. Banks
Director, Federal Regulatory Affairs
Sprint Communications Company L.P.
August 4, 1998

I. INTRODUCTION.

The Commission has expressed its expectation that "BOCs entering the long distance market will compete vigorously for all segments of the market, including low volume long distance customers."[1] In order to demonstrate that its entry will meet this expectation in Louisiana, BellSouth submitted affidavits by Jerry Hausman, Richard Schmalensee, WEFA, among others. The information presented by BellSouth fails to demonstrate that it will, in fact, compete vigorously for the low volume residential market segment; and its estimated consumer benefits, which are based on invalid and overly simplistic assumptions, are wildly optimistic.

BellSouth's affiants have an overly narrow view of the long distance industry. Their analyses focus almost exclusively on AT&T, as if the hundreds of other competitors

---

[1] Memorandum Opinion and Order, *Application of Ameritech Michigan Pursuant to Section 271 of the Communications Act of 1934, as Amended, to Provide In-Region, InterLATA Service in Michigan,* CC Docket No. 97-137, FCC No. 97-298 (released August 19, 1997) ("*Michigan Order*"), at para. 16.

in the marketplace and their products are nonexistent. Based on flawed assumptions, they reach the illogical conclusion that the addition of BellSouth into the long distance industry, which already numbers several hundred interexchange carriers, would generate huge public benefits. Analytical errors and omissions in BellSouth's submissions are discussed below.

II. HAUSMAN FAILS TO EXPLAIN THE METHODOLOGY OR DATA HE USES TO ESTIMATE A GAIN IN CONSUMER WELFARE, BUT WHAT LITTLE CAN BE UNDERSTOOD REVEALS ASSUMPTIONS WHICH BIAS HIS RESULTS.

Hausman concludes that entry of the RBOCs into the long distance market will lead to price decreases of approximately 17.3 percent and to benefits for residential customers of $6.8 billion per year. To reach this conclusion, Hausman calculates the "Change in Consumer Welfare from Lower Long Distance Prices" based on a "well known" formula. Hausman at 9-10. The formula relies on estimates of the percent price change, quantity and price elasticity. Hausman makes no serious attempt to explain how he derived any of these estimates. He offers only vague statements about his methodology, which serve only to expose fundamental flaws in it.

Hausman draws on the experience of SNET, which currently offers in-region long distance service, to derive an industry-wide percent price change. He estimates that SNET's interstate prices are 24.0% below AT&T's for customers who do not qualify for an AT&T discount plan, and 10.6% for those who do. *Id* at 8. Hausman provides no information about what prices or products he used for either carrier.[2]

It is not a simple matter to calculate a weighted average percent discount based on all the relevant residential products offered by both carriers. Detailed information is required about the competitive products and promotions offered by interexchange carriers, as well as customers' usage and the products to which they subscribe. Hausman's failure to present his methodology prevents an evaluation of whether it is oversimplified and whether it relies on assumptions which bias its results.

In any case, Hausman fails to explain why a price differential between SNET and AT&T can validly serve as a proxy for the anticipated price change as a result of nationwide RBOC entry for the entire long distance industry.

---

[2] SNET has a number of residential interstate products, including SNET Classic Solutions with mileage-based rates ranging from $0.25 to $0.33 per minute and Automatic Savings Plan with rates ranging from $0.10 to $0.15 depending on volume of use. Similarly, AT&T has numerous residential interstate offerings. In addition, AT&T has hundreds of promotions based on these offerings.

Any such assumption is a gross oversimplification given that the entire long distance market is increasingly characterized by a plethora of products and promotions for both residential and business customers offered by hundreds of carriers. Long distance carriers are continually introducing new products, features and promotions to attract new customers and to retain their existing customers. Customers are generally well aware of new products and promotions because they are heavily advertised over mass media, and the carriers emphasize the cost savings of their products over those of their competitors. Customers move to the products and promotions offering them the lowest prices and thereby benefit from the intense competition in the long distance industry today. In order to fairly represent the prices available to residential customers in Connecticut, Hausman should have considered all the interexchange carriers and products available to customers; if a sample was used, the criteria for the sample should have been specified and a showing that it represented a useful proxy for the entire industry should have been made.

In a further surprising methodological "twist," Hausman states that he used the number of customers as a weighting factor to develop the average price discount. He states: "[u]sing the estimated number of AT&T customers on a discount plan, I find that overall SNET residential prices

were about 17.3% less than AT&T's prices on average." Hausman at 8-9. A weighting based on the number of customer (rather than on revenue or volume of usage) obviously overstates the average price discount since these discounts are claimed by Hausman to be higher for customers that do not take service under a discount plan. Customers who are not on discount plans generally make fewer calls than those on such plans. In fact, a substantial proportion of customers (perhaps even a majority) who are not on a discount plan do not make any calls each month.[3] Had Hausman used revenues (or possibly minutes) attributable to AT&T's customers on a discount plan rather than the number of customers, the weighting factor applied to the 10.6% discount for AT&T customers on a discount plan would have been much higher. Consequently, the overall difference in prices between SNET and AT&T would have been less than 17.3%.[4]

---

[3] There is also the impact of "dial around" to be considered. According to a recent Yankee Group study published in February 1998 entitled "10XXX Sticker Shock," approximately 9.4 percent of U.S. households used dial around services in 1997. Thus, a significant percentage of customers that Hausman assumed use AT&T's non-discounted rates may well have received lower rates by using a dial around service, thereby lessening the overall difference in prices.

[4] If Hausman weighted the 24.0% discount by the percent of customers that do not qualify for a discount (x) and 10.6% by the percent that do qualify (1-x) to derive the 17.3% average, then he assumed that 50% of AT&T's customer qualify for a discount and 50% did not. This can be found by

In order to validate his estimate of a 17.3 percent price differential between SNET and AT&T, Hausman compares SNET's one rate plan with AT&T's $0.15 One Rate and calculates a 17.5 percent differential. He claims that "SNET offers a discount of 10%-15% off the $0.15 per minute price depending on monthly calling volume." Hausman at 9. Again, Hausman provides little information about his methodology. There is no discussion, for example, as to how he calculated the 10 to 15 percent discount for SNET's flat rate products, nor does Hausman reveal the weighting factor he used (*e.g.*, minutes or number of customers).[5]

---

solving the following equation: 24.0*x + 10.6*(1-x)=17.3. x=.50

[5] SNET's low volume customers do not benefit from any discount. SNET currently has two flat rate products: (1) SNET United Rate Plan which offers residential customers a $0.15 rate with no discounts, SNET America, Inc. Tariff FCC No. 3, at First Revised Page 88, and (2) Automatic Savings Plan, introduced on October 31, 1997 for residential and home office users, which provides discounts only for higher volume customers having toll usage greater than $25, *Id.* at Original Page 56.1. Thus, the low volume SNET customer will not receive any discount off of the $0.15 flat rate.

Hausman also incorrectly assumes in his comparison of flat rate products that the average length of a residential long distance call is 4 minutes. Hausman at 9. It is commonly known that the length of a typical residential call is approximately twice that used by Hausman. Use of an unrealistically short average call time biases his results. Assume two calls, one 4.5 minutes and one 7.5 minutes in length. Using rates of $0.15, the differential changes significantly:

	SNET Price	AT&T Price	SNET % Less
4 ½ minute	$0.68	$0.75	9.3%
7 ½ minute	$1.13	$1.20	5.8%

Apart from the unavailability of discounts for low volume users, SNET's very commitment to serving low volume users is questionable. SNET, for example, has a provision in its interstate tariff that allows it to terminate customers who have not placed an interstate call for three months:

> 2.7.2 **Cancellation by the Company**
>
> ...
>
> **(C)** For Lack of Use: The Company, by written notice to the Customer, may discontinue service in the same manner as provided for nonpayment of overdue charges if after three full billing cycles the service has not been used.

Tariff FCC No. 3, Original Page 17. Neither Sprint nor, as far as Sprint is aware, AT&T or any other IXC has a similar provision in its tariff. Although it is not clear whether or not SNET routinely cancels such low volume accounts since it states that it "may discontinue service" (emphasis added), the statement signals some reservation on SNET's part about serving the low volume residential customer.

Thus, since part of the differential between SNET's rates and those of AT&T is based on SNET's use of one second billing (as opposed to the one minute billing by AT&T), Hausman's claim that "SNET's one-rate prices are approximately 17.5% lower than AT&T's one-rate prices" is biased by his assumption of an average time for a long distance calls which is about 40 percent too short.[6]

In his Reply Declaration filed in support of BellSouth's previous application for Louisiana (¶42), Hausman claims that he "consider[ed] all AT&T rate plans." Hausman does not explain what he means by "consideration," whether he actually included the discounts available under these plans in his calculation of the average differential, how it was included, or how he applied products to groups of customers. At a minimum, Hausman must reveal such "details" before the Commission can reasonably rely on his results.

These conclusions about the errors with Hausman's methodology to derive an average price reduction track those found by the Department of Justice in BellSouth's South Carolina application. Evaluation of the United States Department of Justice, CC Docket No. 97-208, filed November 4, 1997. In the Supplemental Affidavit of Professor Marius

---

[6] Marius Schwartz also noted that Hausman has erred in applying discounts to certain SNET rates that were not available. *See* Supplemental Affidavit of Marius Schwartz on Behalf of the U.S. Department of Justice (Supplemental Affidavit) at fn. 34.

Schwartz, the failure of Hausman's methodology to reflect discounts that high volume residential users already receive is fully analyzed. Professor Schwartz examines Hausman's estimate of price reductions and concludes (at p. 32) that "[h]igh-volume residential customers subscribing to . . . [discount] plans are likely to see considerably smaller price reductions than those assumed by Professor Hausman." Schwartz documents numerous examples of IXC residential products which meet or beat SNET's rates (*See* footnotes 33 and 36), and observes that "the majority of interLATA expenditures are made by higher-volume customers who do participate in discount plans and for whom competition already is more intense." *Id.* Schwartz finds that Hausman's calculation of a 17-18% average price reduction is overstated because it does not appear to account for the number of customers in discount plans versus non-discount plans as well as the higher usage and share of total minutes represented by discount plan customers (at 33). Schwartz also points out that GTE does not seem to be relying on a price strategy to attract customers because it is not aggressively pricing its products. GTE has only two long distance rate plans which are priced comparable to other IXCs' offerings (at fn. 33).

Hausman provides no explanation of how he estimated the 1997 "residential long distance market" of $37.1 billion.

He does not specify whether his estimate contains both interstate and intrastate traffic, and whether both intraLATA and interLATA intrastate traffic are included. Given the magnitude of the number, it is possible that it includes both interstate and intrastate residential traffic. However, Hausman's price differentials are for interstate products only. There is no basis for an assumption that price differentials for intrastate traffic would be the same as those for interstate traffic. Further, intraLATA long distance traffic should not be included, as the local exchange companies provide this service today. If such traffic has been included, the $37.1 billion estimate is at least $7.9 billion too high.[7]

Hausman's calculation of the change in consumer welfare is also too high because it assumes that the price reduction of 18% applies to all interLATA revenue, rather than only that originating in the BOC service areas. Supplemental Affidavit at p.31. As Schwartz points out, approximately 77% of all interLATA revenues originate in BOC service areas and that correcting for this error would "deflate Hausman's projected benefits to consumers by about one quarter -- even

[7]FCC, Preliminary Statistics of Communications Common Carriers, 1997, table 2.9, Line 159, Column 1. If the $37.1 billion is the "residential long distance market of the BOCs only, the intraLATA long distance traffic is $6.1 billion. *Id.*, Line 159, Column 2.

assuming, counter factually, that his projected percentage price reduction in region is accurate." *Id.*

In order to calculate the direct savings of $6.42 billion for residential long distance customers (the first term of his consumer welfare function), Hausman multiplies his percent price change estimate by his estimate of the residential long distance market of $37.1 billion.[8] Since, as demonstrated above, the percent decrease of 17.3 percent is far too high and the size of the market is also too high, the estimate of consumer savings is correspondingly too high. Similarly, the second term of the function -- increased consumer welfare from increased calling due to lower prices -- also relies on the percentage change in price and is also too high.

III. WEFA'S ESTIMATES OF THE PURPORTED BENEFITS OF BELLSOUTH'S ENTRY ARE OVERSTATED.

As part of its state proceeding submission, BellSouth employed WEFA to examine the economic impact of its entry into the interLATA market in Louisiana for its previous application and continues to rely upon its results for the current application. Based on this study, BellSouth claims that its "entry into the interLATA long distance markets throughout Louisiana will by the year 2006 generate an additional 7,600 new jobs in the state and increase the

---

[8] $37.1 x .173 = $6.42

gross state product by approximately $922 million." BellSouth at 100. The WEFA study and its heroic conclusions are facially implausible. Without extensive analysis, Sprint sets forth below some of the more serious flaws in the WEFA analysis.

First, as one of its long distance simulation assumptions, WEFA assumes that long distance prices will fall by 25 percent between 1996 and 2001 due to two factors: (1) higher levels of competition and (2) improved utilization of an efficient network. WEFA at 8. An overall price decrease of 25 percent is extremely optimistic. This decrease is greater than the decrease in rates during the late 1980's which resulted from significant decreases in access charges, as well as competition and more efficient network utilization. To attribute a greater decrease solely to BOC entry and more efficient utilization of the network -- without any decrease in access charges -- is unconvincing.

WEFA does not specify which long distance rates it expects to fall by 5 percent each year (*Id.*) and gives no support for its assumption. As noted, the Hausman affidavit focuses on residential services only. In contrast, the WEFA model appears to apply the discount assumption to all long distance services, including both business and residential services. Given the marked

difference in the characteristics of these two market segments, the application of one price decrease factor for both groups would be overly simplistic.

Although WEFA does not state its assumptions concerning price decreases from 2001 to 2006, it is likely that it assumed a continued decrease in prices of 5 percent. WEFA offers no explanation for failing to provide its assumption throughout the forecast period. However, clearly a 50 percent rate reduction--if this is what was used to continue the economic benefits in the last five years of the forecast--is unreasonable. It implies that the market will not reach an equilibrium after a few years, but rather that long distance carriers will continue to lower prices throughout the decade.

WEFA's assumption that prices will decrease is predicated on the assumption that prices for long distance service are increasing. As discussed above, the pricing analyses that show increases in long distance rates over the past few years are flawed because they do not take into account new services and promotional offerings. Because WEFA's pricing decrease assumption is based on an incorrect assumption about long distance pricing, the pricing decrease assumption necessarily must be incorrect as well.

In its "Derivation of Modeling Assumptions for the Long Distance Simulation," WEFA focuses on rate increases for

older residential long distance products and completely ignores the new business and residential products introduced by existing and new carriers which offer lower rates and the promotions which provide discounts, free service or other benefits. Failure to include such offerings in the underlying modeling assumptions results in a distorted view of the current environment.[9]

Second, WEFA's stimulation is based on increased labor force participation and "new applications that enhance the viability of telework, telecommuting, and remote data, document, and information processing." WEFA at 8. However, long distance calling is not necessarily stimulated by telework or telecommuting. Rather than commute into work, employees perform the same functions at home. Because they are generally within the local calling area of their places of employment, stimulated usage is local, not long distance. Similarly, access to the Internet may be increasing, but the increase in calling is largely to local telephone numbers of the information providers. Thus, much of the additional calling generated by telework and telecommuting is local, not long distance.

---

[9] WEFA has failed to identify the source or to provide any specific information about the products underlying the average cost presented in Figure 2, "Recent Trends in Long Distance Rates and Exchange Access Charges." It is obviously difficult to evaluate the analysis without such information.

In addition, WEFA's model may not accurately account for the specific demographics of Louisiana. A variety of factors may make telecommuting more or less attractive, such as the presence of congested urban areas making commuting more burdensome and costly, or the type of business involved, such as high technology areas versus traditional heavy industry work. Indeed, the example used by WEFA for "telework" centers is for Federal government centers near Washington, D.C. (at 15) Washington is known to have one of the worst commuter congestion problems in the country along with substantial numbers of jobs in the technology sector. WEFA has done nothing to establish that Louisiana has comparable conditions. There is simply no reason to believe that the application of a national telecommuting trend to Louisiana would be appropriate.

WEFA refers to work done by Gil Gordon Associates which found that "the single biggest technology cost for telecommuting in the future will not be equipment, but rather monthly phone bills." *Id.* at 15. Only a portion of increases in the monthly phone bill will be due to long distance rates. The addition of multiple phone lines into the "teleworking" household for computers, fax machines, etc. and the use of business line service in addition to residential line service will play a major role in the increased phone bill. Due to the lack of detail provided by

WEFA, it is unclear whether it has included such impacts in its model.

WEFA projects productivity gains and product improvements to be 2% greater in its long distance simulation than its baseline simulation. *Id.* WEFA provides no basis for this assumption of a significant gain above and beyond the baseline gains that would be projected based on efficiencies built into historical trends. WEFA considers "information technology . . . to have three prongs -- computer hardware, computer software, and telecommunications services." *Id.* at 13. WEFA does not discuss the link which it is making between productivity in the "information sector" and "telecommunications services." Nor does it discuss the link between "telecommunications services" and "long distance services" which BellSouth will be providing. These are clearly important links which must be discussed in order to support any assumption concerning productivity gains due to lower long distance rates.

In Figure 3 WEFA presents the "Consumer Price Indexes for Selected Communications Services" and finds that prices are increasing. The percentage increase from 1991 through 1996 in Figure 3 is not as large as that shown in Figure 2; however, as noted, WEFA has omitted any information about the source or bases of Figure 2, making an evaluation of WEFA's statement impossible. *Id.* at 10. The Consumer Price

Index for Telecommunications is an index for residential service only. As such, it has no relevance to the prices of services in the business market. Further, the index includes only a few volume discounts because it was developed in 1986 and updated in 1987 and 1988, well before the introduction of flat-rate pricing and the explosion of promotions. Thus, it does not accurately reflect the current telecommunications environment. Prices from only a few competitors are included in the index, and it does not include the promotional offerings of carriers. Nor does it take into account new products, such as Sprint Sense or MCI's Friends and Family offerings, or MCI's recently introduced Sunday rate of 5 cents. Thus, it cannot be relied upon to demonstrate that prices to most consumers increased in 1996.

WEFA suggests that more households are taking advantage of the discounts, but that the average price is increasing because basic rates have risen. Again, because the Consumer Price Index for Telecommunications is an index for residential service only and includes only a few volume discounts, it does not accurately reflect the competitive products or the prices consumers pay for telecommunications services today.

WEFA claims that unit costs have decreased by 6 to 7 percent per year. *Id.* at 11. WEFA, however, offers no

analytical justification for this estimate. Rather, it merely states that "[t]hese decreasing costs occur because of improvements and cost reductions in fiber optic electronics and switches." *Id.* WEFA's statement appears to ignore all other costs incurred by long distance carriers. For example, governmentally imposed costs, in particular payments for the Universal Service Fund ("USF"), Lifeline, and Telecommunications Relay Service, have increased nearly threefold since 1989.[10] Other cost increases, especially marketing and promotional costs, have been substantial and thus must be accounted for.

Because of WEFA's use of extremely optimistic assumptions concerning price decreases and productivity gains and because of its use of inaccurate and inflated pricing data, its forecasted economic impact of BellSouth's entry into the interLATA long distance market in Louisiana forecasted is overstated and fundamentally unreliable.

---

[10] For the last six months of 1989 the approximate monthly billing for USF and Lifeline was $158.1 million; the FCC estimated the billings for the first half of 1996 to be $448.3 million. In addition, since 1993 carriers are required to pay for Telecommunications Relay Service ("TRS") based on their gross revenues.

APPENDIX E

Sprint

J. Richard Devlin
Executive Vice President
General Counsel and External Affairs

P.O. Box 11315
Kansas City, MO 64112
Telephone (913) 624-8440
Fax (913) 624-8426

March 4, 1998

The Honorable William E. Kennard
Chairman
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Dear Chairman Kennard:

Thank you for your letter of February 26, 1998. Sprint appreciates the opportunity to correct the record concerning access and universal service costs and Sprint's long distance pricing.

First, the premise of cost reductions is wrong. There were no access and universal services cost reductions on January 1, 1998. On the contrary, Sprint estimates that its interstate access costs and USF costs, taken together, rose by some $28 million on January 1, 1998, as compared with July 1, 1997 levels. Estimates are being used because Sprint has not received detailed, auditable Primary Interexchange Carrier Charges (PICC) bills from the LECs.

We believe that the long distance industry faced overall increases in access charges and universal service of some $316 million on January 1, 1998. This estimate is based on corrections to data supplied by USTA in letters dated February 11, 1998 (from Mr. Neel), and February 20, 1998 (from Ms. McDermott). See Attachment 1.

Second, when viewed in context, long distance prices continue to drop significantly. As the Common Carrier Bureau's Industry Analysis Division recently reported, between 1992 and 1996, long distance billed revenue per minute dropped by 2.9 cents per minute, while access costs during this same period fell by only 1.2 cents.

Attachment 2 shows Sprint's experience between 1995 and 1997. Sprint's revenues per minute fell more than twice the drop in access

costs. In 1997, Sprint customers got some $500 million in price reductions over and above access reductions.

In anticipation of access reform, Sprint bombarded the marketplace with promotions and new product offerings throughout 1997 and has continued to do so into 1998.[1] A list of these promotions and products can be found in Attachment 3. As a result of these new offerings, Sprint revenues per minute continue to fall. This decline has far outstripped the changes in access costs that Sprint has incurred to date, even when expected revenues from Sprint's Presubscribed Line Charge ("PLC") - the charge that it uses to recover PICC costs - and its Carrier Universal Service Charge ("CUSC") - its charge designed to recover Universal Service Fund costs - are taken into account. Specifically, while Sprint's combined access and USF costs are expected to decline by approximately a quarter of a cent between the first quarter of 1997 and the first quarter of 1998, average revenue per minute for those same periods (including the effect of Sprint's new PLC and CUSC) will fall by as much as twice that amount. Thus, the short answer as to why Sprint did not "simultaneously" reduce usage rates when it instituted its PLC and CUSC is that, in reality, it had already done so.

Sprint's new PLC and CUSC charges were not designed as rate increases, but as necessary structural changes to reflect a change in the way costs are imposed on Sprint. The new fixed monthly PICC charges will change fundamentally the way Sprint incurs access charges. For example, a significant number of Sprint's presubscribed customers in any month make few if any calls or use dial-around carriers. Sprint's PLC charge is the only way to recover this new access cost relating to such customers.

Similarly, the significant expansion of universal service funding, with the promise of even greater expansion in the future, makes it important for Sprint to differentiate this item of expense. In addition to direct contributions to USF, the long distance industry bears an additional $830.2 million, or 96.4 percent, of the USF contributions made by the LECs, which the Commission permitted the LECs to pass onto long distance carriers through access charge increases. Directly or indirectly, the long distance industry is being forced to absorb 90 percent of total USF costs. Whether this outcome can be reconciled with the statutory requirement for a nondiscriminatory and competitively neutral USF is the subject of pending appeals. Nevertheless, if the Commission wishes to use long distance carriers to fund programs that are deemed to be in the

[1] Forward pricing, i.e., reducing prices now based on anticipated cost reductions, is customary in a competitive market.

public interest, we need to be able to pass those charges directly to customers in an open and fair manner.[2]

Finally, your letter references and relies on information provided by USTA. USTA is funded principally by the RBOCs and, as such, promotes the RBOC agenda for long distance authority. That agenda is the two big lies -- that local telephone service is competitive and long distance is not. Well, if local telephone service is competitive (i.e., conditions are such that entrants have a reasonable prospect of making a return on their investments), why aren't RBOCs entering each others' markets on a large scale? Why aren't local rates going down? Why don't the RBOCs have seven pages of rate reductions, retention programs and promotions similar to Sprint's Attachment 3? And if long distance is not competitive, why, as shown herein, are per minute yields plummeting?

Sincerely,

J. Richard Devlin

J. Richard Devlin

[2] Sprint's notifications to customers concerning PICC and Universal Service charges were not misleading. See Attachments 4 and 5.

Sprint.

Attachment 1

Reconciliation of Jan. 1, 1998 Access Reductions

Sprint and USTA

USTA Total Reported IXC Increased Costs	$	70,000,000
Sprint Estimated IXC Increased Costs	$	316,157,513
Difference	$	(246,157,513)
USF Differences *	$	189,814,240
GTE Direct Case Order **	$	56,220,684
Total	$	246,034,924
Variance	$	(122,589)

* The USF Difference:

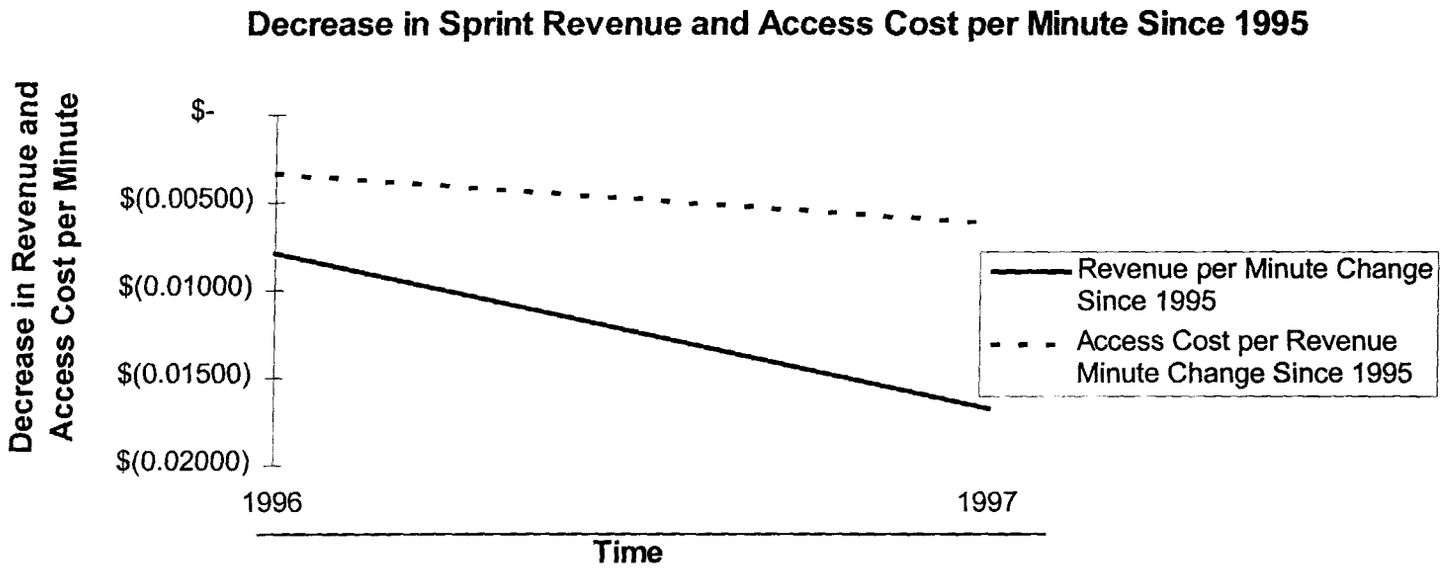
FCC USF Revenue Category		Total Revenues (End Users)		Interstate & International (End Users)
IXC	$	35,697,962	$	26,654,989
Operator Services	$	226,778	$	129,416
Other Toll	$	94,372	$	58,267
Prepaid Calling Cards	$	54,617	$	41,366
Toll Resellers	$	3,165,522	$	1,948,541
Total IXC End User Revenue	$	39,239,251	$	28,832,579
Total FCC Reported End User Revenue		92,156,436		35,314,379
Sprint Calculated IXC % of Fund		**42.58%**		**81.65%**
USTA Calculated IXC % of Fund		**38.74%**		**75.48%**

In calculating USF costs for the IXCs, USTA used only facilities-based IXC revenue, excluding prepaid card providers, toll resellers, operator service providers and other toll. Including the USF obligations of all IXCs results in a direct burden of $2401.8 Million rather than the $2211.9 Million estimate provided by USTA, a difference of $189.8 Million. The $2401.8 Million is calculated by multiplying the corrected IXC percentages (shown above) by the USTA provided USF revenue requirement estimate of $1350 for Schools and Libraries and $2237.7 for High Cost and Lifeline.

** GTE Direct Case Order was ordered as a restatement of GTE's July 1, 1997 filing.
We have included this as a part of the reduction the FCC gave before the Jan. 1, 1998 filings that lowered access an additional $200 million to increase the July 1, 1997 filing to $1.7 billion in total access reductions.

Sprint

Attachment 2



This graph shows the change in Sprint's average annual domestic revenue per minute compared to the change in Sprint's switched access cost per revenue minute using 1995 as the base. Revenue per minute was calculated by dividing total minute-driven revenues by total billed revenue minutes. Access cost per revenue minute was calculated by relating the number of switched access minutes to billed revenue minutes to account for both originating and terminating access charges times Sprint's average access cost per access minute.

Sprint's revenue per minute has declined significantly more than the access cost per revenue minute because Sprint has passed access savings along to customers and has reduced prices to remain competitive.

Sprint would be willing to provide specific revenue and cost data if that competitively sensitive data could be accorded confidential treatment.